

MONTGOMERY WARD
Seventieth Annual Report
Twelve Months Ended
January 31
1942

BOARDS

658.27

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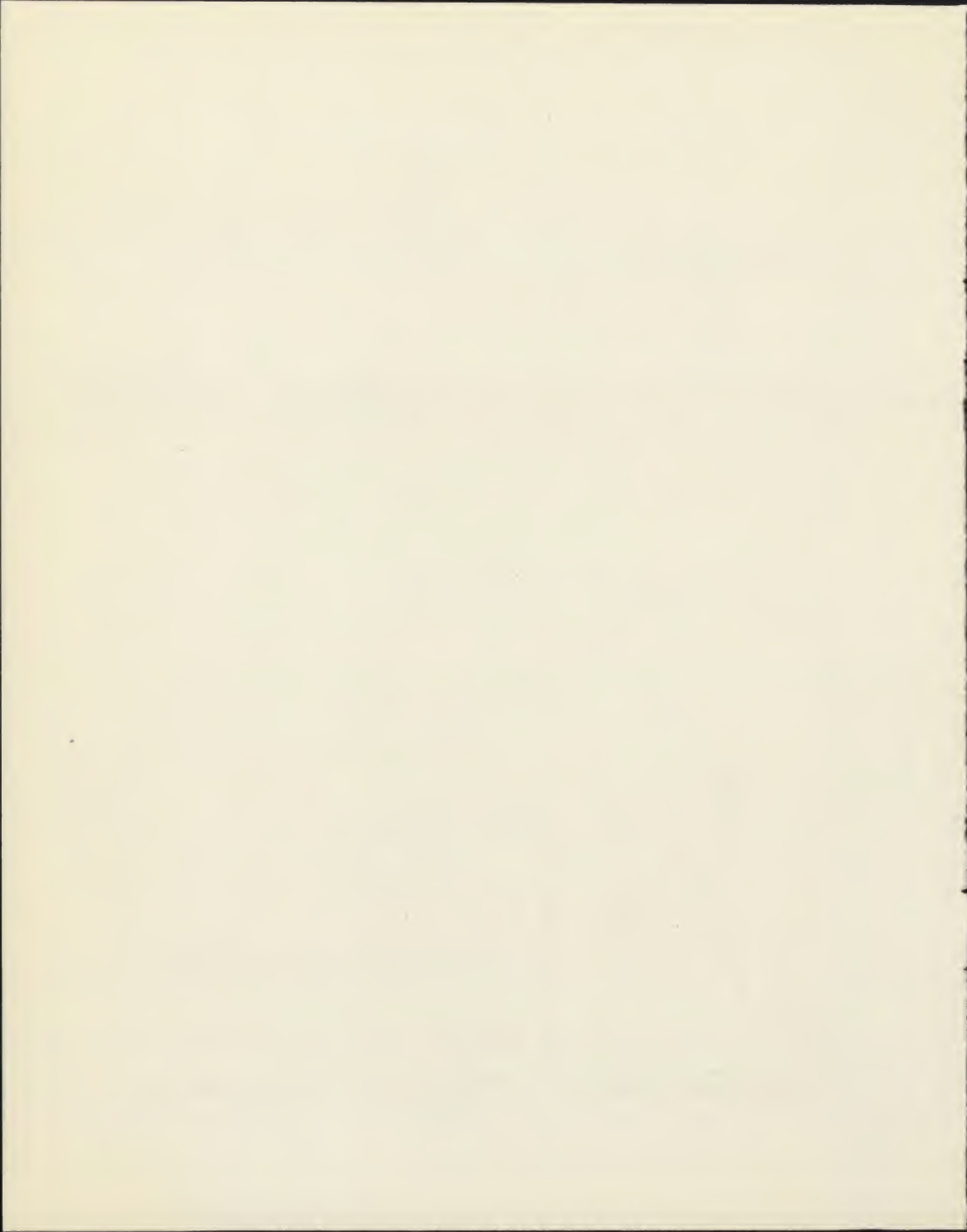
Montgomery Ward & Co.

INCORPORATED

(AN ILLINOIS CORPORATION)



Seventieth Annual Report
Twelve Months Ended
January 31, 1942



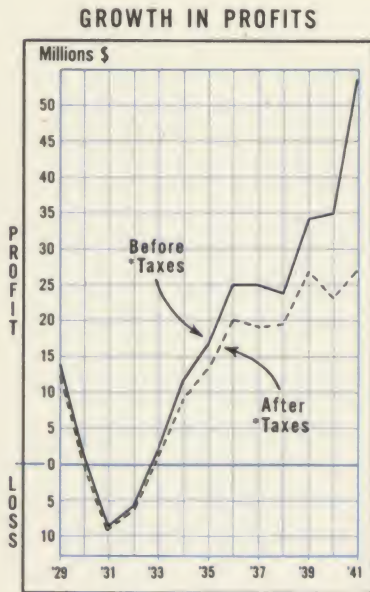
Chicago, March 21, 1942

To the Shareholders of

Montgomery Ward & Co.:

Net profits for the year ended January 31, 1942 were \$27,351,716 before provision of a \$5,000,000 reserve for possible future inventory price decline. This profit is equivalent to earnings of \$4.97 per share of outstanding common stock, after deducting dividends paid on

the Class "A" stock. After deducting the provision for possible inventory price decline, the profit represents earnings of \$4.01 per share of common stock. For the preceding fiscal year net profits were \$23,028,017 or \$4.14 per share. Net profits for the year just ended represented a 12.36% return on net worth.



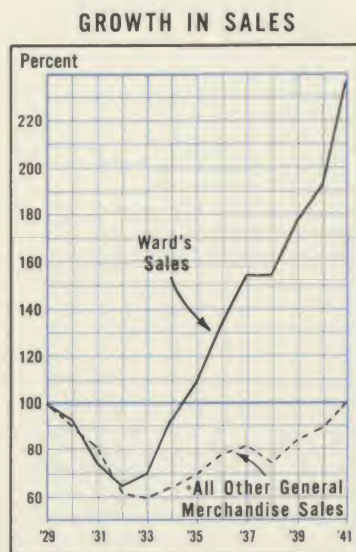
Profits before provision for income and excess profits taxes were \$54,011,716, an increase of \$18,928,699 or 53.9% over last year.

Total income and excess profits taxes were \$26,660,000 for the year and represented 49.3% of the earnings before such taxes, compared with \$12,055,000 and 34.3% for the preceding year.

Net sales increased 22.6% for the year to a new all-time high of \$632,708,657, compared with \$515,910,915 for the preceding year. Approximately one-third of this increase in dollars of sales is attributable to the higher unit prices at which the merchandise was sold, and the balance of the increase represents a greater volume. There were 649 retail stores in operation on January 31, 1942—a reduction of one store for the year. Mail order houses and retail stores shared proportionately in the increased sales.

Federal regulations adversely affected the volume of time payment sales. Mail order sales were also hurt by the shortage of some lines, which made it necessary to return more than \$20,000,000 of cash to customers who ordered merchandise that the company was unable to supply.

Net working capital increased \$15,415,000 during the year, and

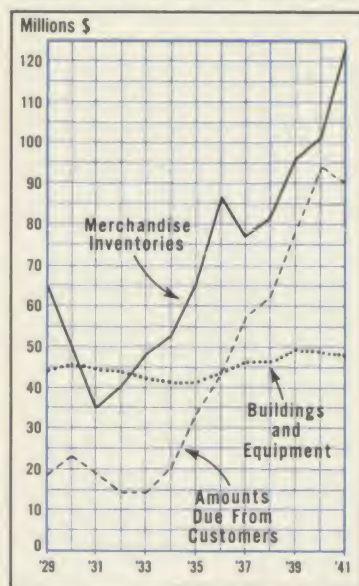


*From U. S. Department of Commerce
(Excluding Ward's Sales)

the ratio of current assets to current liabilities was slightly improved at the end of the year. The higher inventories which accompanied the increased sales volume necessitated short-term bank loans during the year, but the year ended with no debt other than current payables and accruals. Cash was slightly below the balance at the beginning of the year, and \$7,500,000 of United States Treasury notes were held for use in payment of taxes during the coming year.

The inventories of merchandise at the end of the year were 21% higher in dollar value than at the beginning of the year. This increase

GROWTH IN MAJOR ASSETS



is attributable entirely to higher costs and does not represent an increase in quantities. The inventories contain a wider selection of quality merchandise, and approximately 10% of the total represents lines in which sales have been restricted by Federal regulations since the merchandise was purchased. The stocks on hand are adequate and complete except for the items that have been affected by the Government need in connection with the production of war materials.

During the year the condition of time payment accounts further improved, with delinquencies and bad debt losses at continued low levels. Reserve ratios were increased during the year in recognition of unstable economic conditions. Reserves for bad debts and future collection costs were 13.9% of outstanding balances at the year-end, compared with 12.4% at the beginning of the year.

Dividends totaling \$11,845,172 were paid during the year, of which the Class "A" stockholders received \$1,410,878 and the common stockholders received \$10,434,294 or \$2 per share. These dividend distributions were the same as the amounts paid during the preceding year.

During 1941 the company expended \$3,778,000 for extensive equipment additions to seven mail order houses, expansion and modernization of a number of retail stores, and the opening of three new stores. Four stores were closed.

The company is faced with conditions that will adversely affect the results of operations for the current year. Some lines of major importance such as tires, electric refrigerators, stoves, radios, hardware, washing machines and similar merchandise are already seriously affected by Government priorities of materials, and it seems reasonable to anticipate that the large scale conversion of many raw materials from civilian uses to war products will greatly

curtail many other lines of merchandise. Further restrictions on terms of time payment sales are to be expected, with consequent loss of volume. The proportion of profit that will be paid to the Government in the form of taxes is certain to increase. The full effect of all of these factors cannot be foreseen, but obviously it will be severe.

Respectfully submitted,

SEWELL L. AVERY,

Chairman of the Board

Montgomery Ward

Balance Sheet —

ASSETS

Current Assets:

Cash (less treasurer's drafts outstanding).....		\$ 15,955,864.32
Receivables—		
Customers' time payment accounts (approximately \$5,900,000 maturing after one year).....	\$ 95,881,574.59	
Customers' charge and other accounts..	6,404,639.91	
Due from suppliers, claims receivable, etc.	2,851,809.97	
	<u>\$ 105,138,024.47</u>	
Less—Reserves for doubtful accounts and collection expense.....	14,064,510.67	91,073,513.80
Merchandise inventories (priced at the lower of cost or market).....		<u>123,102,953.27</u>
Total current assets.....		\$ 230,132,331.39

Investments (including \$287,114.15 of
U. S. Government securities deposited under
self-insurance agreements) at cost, less reserves...

678,173.19

Prepaid Catalog Costs and Expenses:

Catalog costs, paper stock, etc.....	\$ 5,407,962.63	
Supplies, insurance, etc.....	5,100,119.20	10,508,081.83

Fixed Assets (at cost, less depreciation reserves):

Land.....	\$ 5,927,658.43	
Buildings.....	\$ 35,941,404.05	
Fixtures and equipment.	34,033,697.32	
	<u>\$ 69,975,101.37</u>	
Less—Reserves for depreciation.....	32,577,956.64	37,397,144.73
Leasehold improvements (less amortization).	5,656,426.93	48,981,230.09
		<u>\$ 290,299,816.50</u>

& Co., Incorporated

January 31, 1942

LIABILITIES

Current Liabilities:

Accounts payable.....	\$ 12,957,754.86	
Due customers.....	<u>5,776,965.12</u>	\$ 18,734,719.98
Accrued expenses and taxes —		
Salaries, wages, extra compensation, other operating expenses, etc...	\$ 7,962,609.37	
Personal property, real estate, state income, and sundry taxes.....	4,488,660.17	
Federal income taxes..	\$ 27,553,960.35	
Less—United States		
Treasury tax notes..	<u>7,500,000.00</u>	<u>20,053,960.35</u>
Total current liabilities.....		\$ 32,505,229.89
		<u>\$ 51,239,949.87</u>

Reserves:

Future inventory price decline.....	\$ 5,000,000.00	
Self-insurance and contingencies.....	<u>2,370,942.78</u>	7,370,942.78

Capital Stock and Surplus:

Capital stock—		
Authorized—		
Class “A”—205,000 shares of no par value, \$7 per share cumulative dividends, non-callable and entitled in liquidation to \$100 per share		
Common—6,000,000 shares of no par value		
Issued (stated value)—		
Class “A”—205,000 shares }	\$ 149,288,340.08	
Common—5,217,147 shares }		
Earned surplus.....	<u>82,653,260.27</u>	
	\$ 231,941,600.35	
Less—Treasury stock—		
Class “A”—3,446 shares.....	<u>252,676.50</u>	<u>231,688,923.85</u>
		<u>\$ 290,299,816.50</u>

Montgomery Ward & Co., Incorporated

Comparative Income Account

	<i>Year Ended January 31</i>	
	<i>1942</i>	<i>1941</i>
Net sales.....	\$ 632,708,657.00	\$ 515,910,915.00
Deduct—		
Cost of sales, selling and general expenses, and all taxes other than income taxes..	\$ 575,085,960.93	\$ 477,479,917.89
Depreciation and amortization of fixed properties.....	3,610,979.88	3,347,980.17
	<u>\$ 578,696,940.81</u>	<u>\$ 480,827,898.06</u>
Net profit before taxes on income.....	<u>\$ 54,011,716.19</u>	<u>\$ 35,083,016.94</u>
Provision for income and excess profits taxes—		
Federal and state income taxes.....	\$ 12,935,000.00	\$ 9,885,000.00
Excess profits taxes.....	13,725,000.00	2,170,000.00
	<u>\$ 26,660,000.00</u>	<u>\$ 12,055,000.00</u>
Net profit for the year.....	<u>\$ 27,351,716.19</u>	<u>\$ 23,028,016.94</u>
Provision for possible future inventory price decline.....	5,000,000.00	—
Balance of net profit to surplus.....	<u><u>\$ 22,351,716.19</u></u>	<u><u>\$ 23,028,016.94</u></u>

Earned Surplus Account

Balance January 31, 1941.....	\$ 72,146,716.08
Net profit for the year ended January 31, 1942, (after deducting \$5,000,000 for possible future inventory price decline).....	22,351,716.19
Total.....	\$ 94,498,432.27
Deduct—	
Dividends on Class "A" stock—\$7.00 per share..	\$ 1,410,878.00
Dividends on common stock—\$2.00 per share..	<u>10,434,294.00</u>
Balance January 31, 1942.....	<u><u>\$ 82,653,260.27</u></u>

ARTHUR ANDERSEN & CO.

120 SOUTH LASALLE STREET
CHICAGO

*To the Board of Directors,
Montgomery Ward & Co., Incorporated:*

We have examined the balance sheet of MONTGOMERY WARD & CO., INCORPORATED (an Illinois corporation) as of January 31, 1942, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at January 31, 1942, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
March 10, 1942

ARTHUR ANDERSEN & CO.

Montgomery Ward

Comparison of

January 31

1942

1941

ASSETS

Current Assets:

Cash.....	\$ 15,955,864.32	\$ 16,413,449.52
Receivables, less reserves.....	91,073,513.80	94,715,917.04
Merchandise inventories.....	123,102,953.27	101,710,763.19
Total current assets.....	<u>\$ 230,132,331.39</u>	<u>\$ 212,840,129.75</u>
Investments, etc.....	678,173.19	856,717.66
Prepaid Catalog Costs and Expenses..	10,508,081.83	8,357,296.38
Fixed Assets, less depreciation reserves..	48,981,230.09	49,623,059.86
	<u>\$ 290,299,816.50</u>	<u>\$ 271,677,203.65</u>

LIABILITIES

Current Liabilities.....	\$ 51,239,949.87	\$ 49,362,756.68
Reserves.....	7,370,942.78	1,132,067.31
Capital Stock and Surplus:		
Capital stock issued (stated value).....	149,288,340.08	149,288,340.08
Less—Treasury stock.....	252,676.50	252,676.50
Earned surplus.....	82,653,260.27	72,146,716.08
	<u>\$ 290,299,816.50</u>	<u>\$ 271,677,203.65</u>

Net Working Capital.....	<u>\$ 178,892,381.52</u>	<u>\$ 163,477,373.07</u>
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& Co., Incorporated

Balance Sheets

January 31

<i>1940</i>	<i>1939</i>	<i>1938</i>	<i>1937</i>
\$ 14,396,411.78	\$ 24,392,658.32	\$ 18,515,250.97	\$ 17,130,892.06
78,880,212.23	62,593,190.86	57,353,768.79	44,355,143.10
96,323,612.35	81,494,245.14	77,361,847.55	87,174,188.20
<u>\$ 189,600,236.36</u>	<u>\$ 168,480,094.32</u>	<u>\$ 153,230,867.31</u>	<u>\$ 148,660,223.36</u>
5,234,915.76	6,012,450.51	6,648,496.54	7,257,670.07
7,153,715.14	6,655,355.50	6,412,777.25	5,912,666.46
49,848,028.48	46,683,089.82	46,896,602.03	44,851,570.02
<u>\$ 251,836,895.74</u>	<u>\$ 227,830,990.15</u>	<u>\$ 213,188,743.13</u>	<u>\$ 206,682,129.91</u>
\$ 40,704,948.96	\$ 31,901,197.85	\$ 27,675,902.29	\$ 29,885,832.91
1,132,412.06	1,095,730.48	1,087,136.83	1,004,359.22
149,288,340.08	149,288,340.08	149,288,340.08	148,031,940.08
252,676.50	252,676.50	252,676.50	252,676.50
60,963,871.14	45,798,398.24	35,390,040.43	28,012,674.20
<u>\$ 251,836,895.74</u>	<u>\$ 227,830,990.15</u>	<u>\$ 213,188,743.13</u>	<u>\$ 206,682,129.91</u>
<u>\$ 148,895,287.40</u>	<u>\$ 136,578,896.47</u>	<u>\$ 125,554,965.02</u>	<u>\$ 118,774,390.45</u>

Montgomery Ward

Comparison of Sales,

FISCAL YEAR	NET SALES	PROFIT BEFORE INCOME TAXES	INCOME TAXES
1941	\$ 632,708,657	\$ 54,011,716	\$ 26,660,000
1940	515,910,915	35,083,017	12,055,000
1939	474,882,032	34,310,645	7,300,000
1938	413,961,241	24,044,956	4,400,000
1937	414,090,544	25,110,029	5,900,000
1936	361,297,059	25,198,914	5,000,000
1935	293,042,357	16,837,310	3,310,000
1934	249,805,721	11,161,054	2,000,000
1933	187,632,543	2,227,957	—
(b) 1932	176,488,690	5,686,784	—
Totals	\$ 3,719,819,759	\$ 222,298,814	\$ 66,625,000

(a) Book value per share of common stock, computed after deducting \$100 per share of Class "A" stock.

(b) Thirteen months ended January 31, 1933.

& Co., Incorporated

Earnings, and Surplus

NET PROFIT	DIVIDENDS	EARNED SURPLUS (End of Year)	BOOK VALUE PER COMMON SHARE (a)
<u>\$ 27,351,716 (c)</u>	<u>\$ 11,845,172</u>	<u>\$ 82,653,260</u>	<u>\$ 40.54</u>
23,028,017	11,845,172	72,146,716	38.53
27,010,645	11,845,172	60,963,871	36.38
19,644,956	9,236,598	45,798,398	33.48
19,210,029	11,832,663	35,390,040	31.48
20,198,914	19,318,175	28,012,674	29.98
13,527,310	2,469,036	27,131,935 (d)	28.46
9,161,054	2,116,317	16,374,450 (d)	26.01
2,227,957	1,058,158	9,640,643	24.44
5,686,784	356,954	8,470,844	24.27
<u>\$ 155,673,814</u>	<u>\$ 81,923,417</u>	<u>—</u>	<u>—</u>

(c) Before deducting \$5,000,000 for reserve for possible future inventory price decline.

(d) After adjustment of \$310,930 in 1934 and \$300,789 in 1935.

Montgomery Ward & Co., Incorporated

DIRECTORS

SEWELL L. AVERY, *Chairman*

DAVID A. CRAWFORD	HAROLD L. PEARSON
HARRY P. DAVISON	CLEMENT D. RYAN
PERCY B. ECKHART	*SILAS H. STRAWN
CHARLES F. GLORE	JAMES W. THORNE
DONALD R. MCLENNAN, JR.	EUGENE R. WIMMER

*Chairman, Executive Committee

OFFICERS

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HAROLD L. PEARSON.....	<i>Vice-President & Treasurer</i>
CLEMENT D. RYAN.....	<i>Vice-President</i>
EUGENE R. WIMMER.....	<i>Vice-President</i>
PHILIP W. HARRIS.....	<i>Vice-President</i>
HAROLD E. MACDONALD.....	<i>Vice-President</i>
EARL G. WARD.....	<i>Comptroller</i>
STUART S. BALL.....	<i>Secretary</i>
LESLIE F. CREWS.....	<i>Assistant Treasurer</i>
ALBERT T. HUIZINGA.....	<i>Assistant Treasurer</i>
ROBERT S. SMITH.....	<i>Assistant Treasurer</i>
JOHN A. BARR.....	<i>Assistant Secretary</i>
RALPH G. CRANDALL.....	<i>Assistant Secretary</i>

Transfer Agents

MONTGOMERY WARD & Co., INCORPORATED, CHICAGO, ILL.
MONTGOMERY WARD & Co., INCORPORATED, NEW YORK, N. Y.

Registrars

THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.
BANKERS TRUST COMPANY, NEW YORK, N. Y.



